



Joint Legislative Audit Committee
Office of the Auditor General



FINANCIAL AUDIT REPORT
PUBLIC SCHOOL BUILDING LOAN FUND
YEAR ENDED JUNE 30, 1979

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-441.4**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

441.4

FINANCIAL AUDIT REPORT
PUBLIC SCHOOL BUILDING LOAN FUND
YEAR ENDED JUNE 30, 1979

OCTOBER 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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S. FLOYD MORI
CHAIRMAN

November 21, 1980

441.4

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits
the Auditor General's financial audit report of the Public
School Building Loan Fund, year ended June 30, 1979.

The auditors are Curt Davis, CPA; Michael Dendorfer, CPA;
Gus Demas; Fredrick Lewis; and Stephen Lozano.

Respectfully submitted,

S. FLOYD MORI
Chairman, Joint Legislative
Audit Committee

Attachment

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted an audit of the Public School Building Loan Fund. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

Chapter 1389 of the Statutes of 1949 created the Public School Building Loan Fund to provide financial assistance to impoverished school districts for acquiring and constructing adequate classroom facilities. On November 8, 1949, the voters approved a general obligation bond issue of \$250 million to finance the activities of this fund. Eligible school districts began borrowing these funds during fiscal year 1949-50 and had borrowed all bond proceeds by the end of fiscal year 1955-56. Since fiscal year 1955-56, this fund has only been used for (1) receipts from school districts for repayment of loan principal and payment of interest on the loans and (2) the transfer of these amounts to the General Fund.

Amounts transferred to the General Fund were to reimburse expenditures initially made from the General Fund for redemption of the bonds and for the payment of interest.

During the 1978-79 fiscal year, the General Fund completed the redemption of general obligation bonds issued to finance the Public School Building Loan Fund. Since July 24, 1979, the transfers are appropriated for purposes of the Leroy F. Greene State Lease - Purchase Law of 1976. The State Controller transfers, as directed by the State Allocation Board, such appropriated amount to the State School Building Lease - Purchase Fund and to the State School Deferred Maintenance Fund.

The Director of General Services is responsible for administering the Public School Building Loan Fund and its programs. The State Controller maintains a record of loans receivable from school districts, calculates the annual interest on loans receivable, and computes the annual repayment due from each school district.

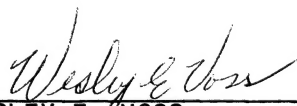
AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the balance sheet of the Public School Building Loan Fund as of June 30, 1979 and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 2 of the Notes to the Financial Statements, the State Controller computes the annual amount of loans receivable from school districts and payable to the General Fund. The Director of General Services estimates that 80 percent of the \$26,393,088 in loans receivable from school districts at June 30, 1979 will be collected. This estimate is based upon the statutory requirements for repayment of loans and estimates of current and probable changes in assessed valuations of property in school districts. Because of the uncertainty involved in determining future assessed valuations of property, we cannot substantiate this estimate through auditing procedures.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the amount of loans to be collected from school districts and the amount payable to the General Fund been known, the aforementioned financial statements present fairly the financial position of the Public School Building Loan Fund at June 30, 1979 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



WESLEY E. VOSS
Assistant Auditor General

Date: September 12, 1980

Staff: Curt Davis, CPA
Michael Dendorfer, CPA
Gus Demas
Fredrick Lewis
Stephen Lozano

STATE OF CALIFORNIA
PUBLIC SCHOOL BUILDING LOAN FUND

BALANCE SHEET

JUNE 30, 1979

ASSETS

Loans receivable from school districts:		
Current (Note 2)		\$ 5,172,039
In excess of one year (Note 2)	\$21,221,049	
Less: Allowance for uncollectible loans receivable	<u>5,278,618</u>	<u>15,942,431</u>
Total Assets		<u><u>\$21,114,470</u></u>

LIABILITIES

Payable to the General Fund:		
Current (Note 2)		\$ 5,172,039
In excess of one year (Note 2)		<u>15,942,431</u>
Total Liabilities		<u><u>\$21,114,470</u></u>

The notes to the financial statements are an integral part of this statement.

STATE OF CALIFORNIA
PUBLIC SCHOOL BUILDING LOAN FUND

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Revenues:	
Interest income (Note 3)	\$ 210,253
Other Financing Sources:	
School district loan repayments	<u>5,629,148</u>
Total Revenues and Other Financing Sources	<u>5,839,401</u>
Other Uses:	
Transfers to General Fund	<u>5,839,401</u>
Excess of Revenues and Other Financing Sources over Other Uses	--
Fund Balance - July 1	<u>--</u>
Fund Balance - June 30	<u><u>\$ --</u></u>

The notes to the financial statements are an integral part of
this statement.

STATE OF CALIFORNIA
PUBLIC SCHOOL BUILDING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and the results of operations of the Public School Building Loan Fund. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

The Public School Building Loan Fund is an expendable trust fund. Expendable trust funds account for fiduciary resources for which principal and income may be expended. Administrative costs of the Public School Building Loan Fund incurred by the Department of General Services and the State Controller are paid from annual appropriations made from the State School Building Aid Fund. These costs are reported as expenditures by the State School Building Aid Fund.

The Public School Building Loan Fund is maintained on a modified accrual basis of accounting. At June 30, the accounts are adjusted to accrue all earned but uncollected income. There were no expenditures from the fund during the 1978-79 fiscal year.

2. LOANS RECEIVABLE FROM SCHOOL DISTRICTS
AND PAYABLE TO GENERAL FUND

Education Code Sections 15729 et seq. provide that the State Controller shall annually calculate amounts receivable from school districts based upon each district's assessed valuation and other factors. If an unpaid balance exists at the end of the 30-year loan period, the State Controller is required to cancel the loan; at that time, the State has no further right to repayment. All loans of the fund were made in 1950, 1951, 1952, 1953, 1954, 1955, or 1956 for a 30-year period. An estimated 80 percent of the \$26.4 million in loans receivable from school districts at June 30, 1979 will be collected.

Monies collected from school districts are available only for transfer to the General Fund to (1) reimburse that fund for the redemption and payment of interest on general obligation bonds issued to provide resources to the Public School Building Loan Fund, and (2) effective July 24, 1979, any excess of transfers over expenditures is appropriated for purposes of the Leroy F. Greene State Lease - Purchase Law of 1976. The State Controller transfers, as directed by the State Allocation Board, such appropriated amount to the State School Building Lease - Purchase Fund and to the State School Deferred Maintenance Fund.

3. INTEREST INCOME

Section 15725 of the Education Code requires the State Allocation Board, with the approval of the Director of General Services, to fix the rate of interest to be paid by the school districts. Section 15738 of the code states that interest will no longer accrue on the outstanding loan balance after 25 years. At June 30, 1979, loans outstanding over 25 years totaled \$15.9 million or 61 percent of total loans receivable from school districts.

OTHER COMMENTS

As an integral part of our examination, we reviewed the accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the financial statements present financial position and results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enabled us to suggest improvements which would result in better operating procedures and controls. A management letter describing the suggested operating improvements was issued to the State Controller in conjunction with certain recommended adjusting entries necessary to achieve compliance with generally accepted accounting principles.

The State Controller generally concurs with the suggested operating improvements and adjusting entries.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps